

**ORGANIZATION OF EASTERN CARIBBEAN STATES**

**TRADE POLICY BRIEF**

(Vol. 11)

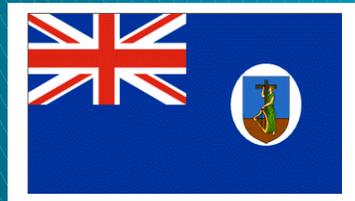
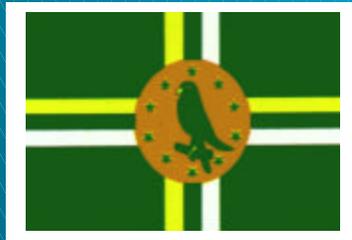
A monthly policy brief on multilateral/hemispheric trade issues of currency for OECS Member States' Trade Policy-makers and the CRNM College of Negotiators



# OECS



## SECRETARIAT



# Regional Trade Arrangements: An Overview

## 1. What are Regional Trade Arrangements?

Regionalism is described in the *Dictionary of Trade Policy Terms*, as “actions by governments to liberalize or facilitate trade on a regional basis, sometimes through free-trade areas or customs unions”. Regional Trade Arrangements (RTAs), then, is terminology used to characterize customs unions, free trade areas or other preferential arrangements countries enter into in order to create faster, broader and deeper liberalization/integration among members. In the WTO context, RTAs have both a more general and a more specific meaning. More general, because RTAs may be agreements concluded between countries not necessarily belonging to the same geographical region; more specific, because the provisions of GATT Article XXIV and Article V of the GATS relate specifically to conditions of preferential trade liberalization with RTAs. Over 60 percent of world trade takes place within RTAs that have either achieved free trade or have pledged to do so (the greatest concentration of RTAs are in Europe).

**TABLE 1 - Regional Free Trade Arrangements**  
(share of world trade, 1994)

---

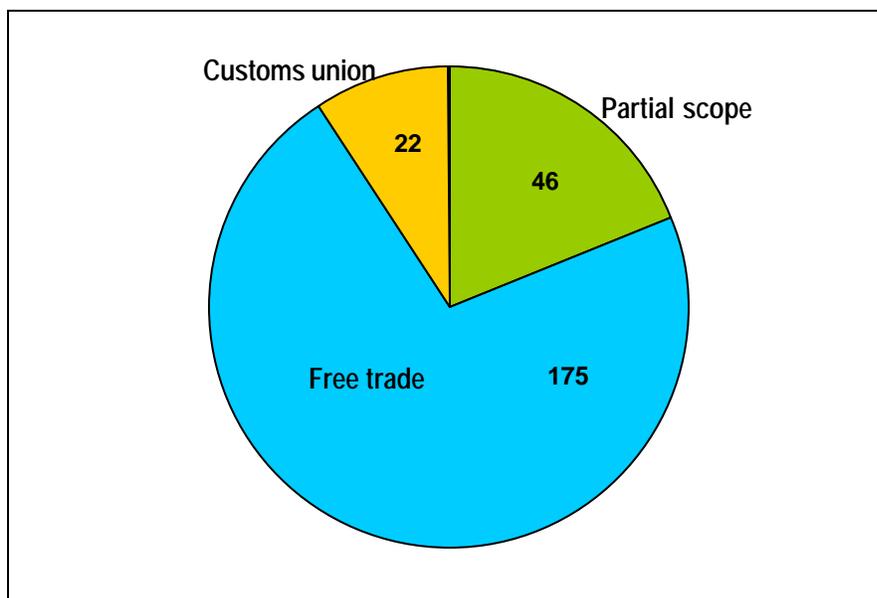
European Union	22.8
EUROMED	2.3
NAFTA	7.9
Mercosur	0.3
Free Trade Area of the Americas (in addition to its subregionals)	2.6
AFTA	1.3
Australia-New Zealand	0.1
APEC (in addition to its subregionals)	23.7
TOTAL	61.0

**Source:** C.F. Bergsten, “Open Regionalism”, Working Paper 97-3, Institute for International Economics, 1997.

The pace of RTA negotiation varies based on the nature of integration sought. In a free trade agreement (FTA) each party maintains its own tariffs *vis-à-vis* third parties and generally can be negotiated quite expeditiously. In fact, there has been a trend in recent years toward such integration frameworks as a lesser degree of integration is required. Customs unions, on the other hand, which provide for the establishment of a common external tariff and harmonization of trade policy, often take years to negotiate and have (often) long implementation phases. This notwithstanding, the network of RTAs throughout the world is now highly complex and many countries are members of several agreements, sometimes with differing rules. Also noteworthy, nearly 60 percent of

the notified RTAs in force at the end of 2000 have been concluded among European countries. RTAs concluded among developing countries account for about 15 percent of the total. Between 1948-1994, the General Agreement on Tariffs and Trade (GATT) received 124 notifications of RTAs (relating to trade in goods), and since the creation of the WTO in 1995, over 100 additional arrangements covering trade in goods or services have been notified.<sup>1</sup> According to the WTO Secretariat, as of April 2002, there were some 243<sup>2</sup> RTAs in force.<sup>3</sup> Chart 1 illustrates a typology of RTAs in force as of March 2002. The most common category is the FTA which accounts for 72 percent of all RTAs. Partial scope agreements and customs union agreements account for 19 and 9 percent, respectively; in addition, 18 of the RTAs identified (17 FTAs and 1 customs union) contain commitments on trade in services in addition to tariff concessions on goods.

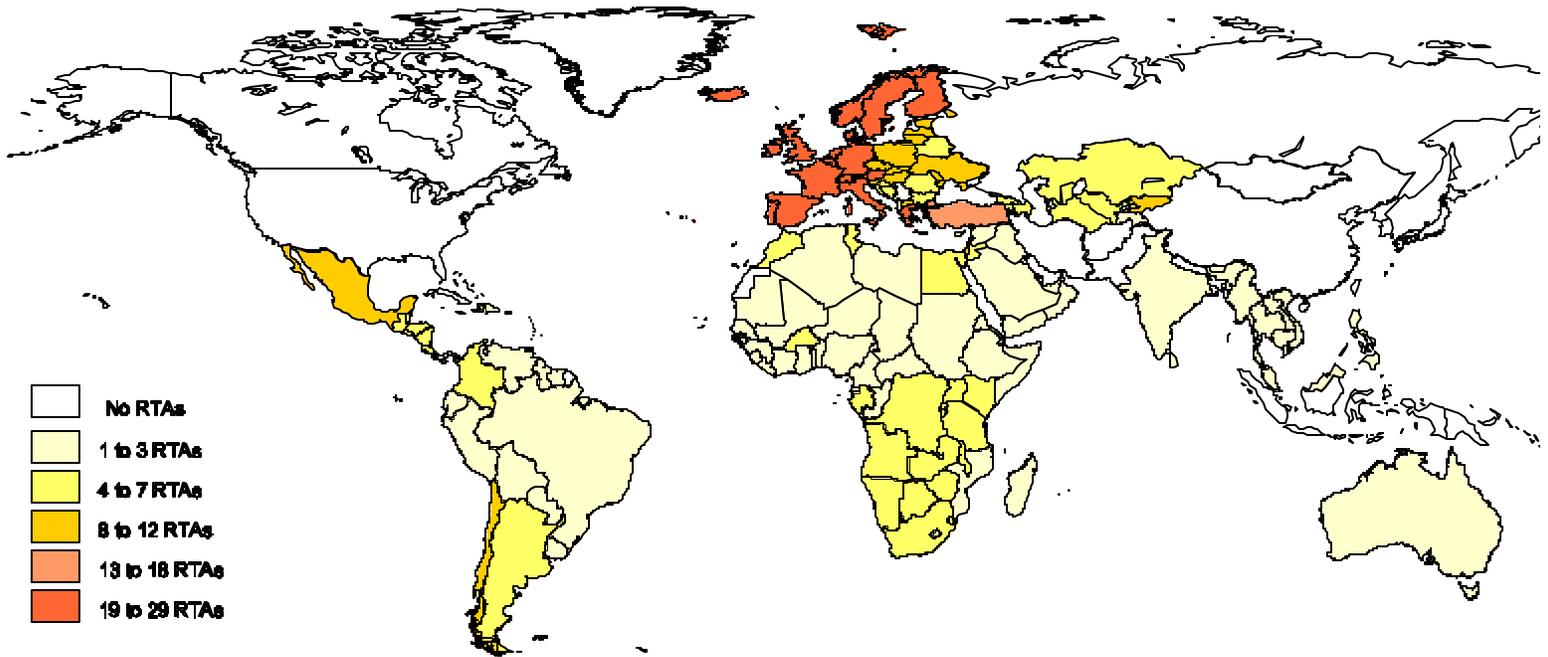
**CHART 1 - RTAs in Force, as of March 2002**



<sup>1</sup> According to the WTO not all RTAs notified in the last half century are still in force today. Many of the discontinued RTAs have, however, been superseded by redesigned agreements among the same signatories.

<sup>2</sup> Specifically, 22 customs unions, 46 partial scope and 175 free trade areas. The WTO Secretariat has identified some 87 RTAs currently under negotiation that are estimated to be in force within the next 5 years. Of the 87 RTAs being negotiated 92 percent are FTAs; over 50 percent of those being negotiated are bilateral FTAs.

<sup>3</sup> Clemens Boonekamp, "Regional trade integration under transformation", Panel Discussion - *New Developments in the WTO and in RTAs, Seminar on Regionalism and the WTO* (Geneva: WTO Secretariat, 26 April, 2002). Most countries in the world, on all continents, are members of RTAs — i.e. customs unions, free trade areas or other preferential arrangements. Over 30 percent of these RTAs involved developing countries. Since 1995, over 100 agreements covering trade in goods or services, or both, have been notified to the WTO. In the 1990s, the number of notified RTAs began to surge upwards at unprecedented rates.

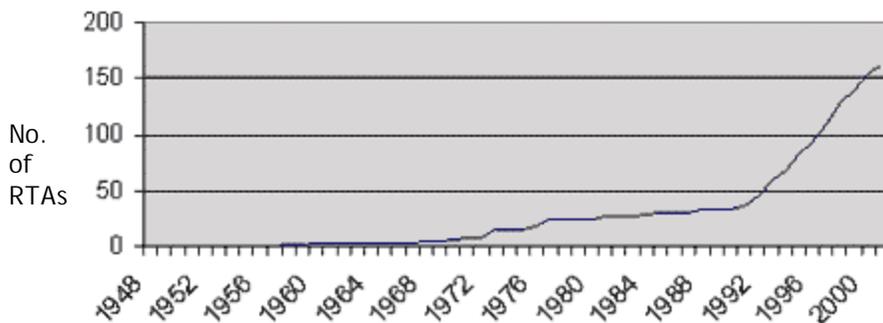


Note: FTAs and CUs

MAP 1 - Participation in RTAs (FTAs and CUs) in force (as of March, 2002)

Nearly all WTO Members are engaged in RTAs of one kind or another. The scope as well as the geographical reach of RTAs have broadened and expanded. The simplest involve the exchange of preferences on a limited range of products. The more far reaching RTAs are FTAs and customs unions (CU). New generation RTAs are going beyond traditional tariff cutting and to embrace 'second generation' trade issues. After the conclusion of the Uruguay Round and the establishment of the WTO the appeal of regional integration has, however, continued to grow. In part, the increase in notifications is a reflection of increased WTO membership and new notification obligations.<sup>4</sup> This notwithstanding, according to the WTO Secretariat Regional Trade Agreements Section of the Trade Policies Review Division<sup>5</sup>, it is obvious that the rate of growth of RTAs is continuing unabated (see Table 2).

**TABLE 2 - RTAs in Force by Date of Notification to the GATT/WTO**



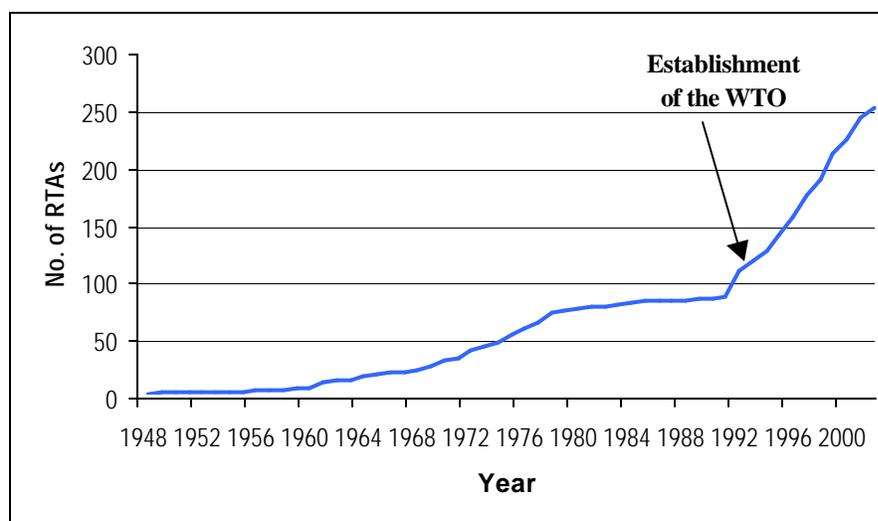
Source: WTO Secretariat

<sup>4</sup> Since the establishment of the WTO, Members are required to notify EIAs in services.

<sup>5</sup> WTO Secretariat, Regional Trade Agreements Section of the Trade Policies Review Division, "Regional Trade Integration Under Transformation", Paper presented at Seminar on Regionalism and the WTO (WTO Secretariat, Geneva, 26 April 2002).

Since January 1995 there have been an average of 15 notifications every year to the WTO, compared with an annual average of less than three during the four and half decades of the GATT (see Chart 2).<sup>6</sup>

**CHART 2 - RTAs Notified to the GATT/WTO (1948-2002), cumulative**



**Source:** WTO Secretariat, Regional Trade Agreements Section of the Trade Policies Review Division, “Regional Trade Integration Under Transformation”, Paper presented at [Seminar on Regionalism and the WTO](#) (WTO Secretariat, Geneva, 26 April 2002).

## **2. RTA Configuration**

It has been widely acknowledged that RTAs are becoming increasingly more complex with overlapping RTAs and networks of RTAs spanning within and across continents at the regional and sub-regional levels.<sup>7</sup> The result has been that the proliferation of RTAs has had the unwanted consequence of creating overlapping regional trade agreements, also known as the ‘*spaghetti bowl*’ effect. Overlapping has resulted in two very undesirable effects: i.) differing rules of origin (more so conflicting criteria for the granting of origin); ii.) duplication and maintenance of tariff schedules for each preferential partner with different phase-out periods (occurs when a given country has membership in a number of different RTAs). This notwithstanding, the configuration of RTAs amongst various countries continues to be diverse (see Table 3).

<sup>6</sup> Included in this number are notifications made under GATT Article XXIV, GATS Article V, the Enabling Clause, as well as accessions to existing RTAs. It should be noted that the notification requirements contained in WTO provisions on RTAs require that RTAs on trade in goods and RTAs on trade in services be notified separately even if the agreement covers both areas; see WT/REG/W/44 for a complete list of RTAs notified to the GATT/WTO and in force.

<sup>7</sup> RTAs are increasingly concluded among geographically non-contiguous countries. The term ‘regional’ may soon become an incongruity to describe the plethora of cross-regional preferential agreements linking countries around the globe.

**Table 3 - RTA Configuration**

<i>TYPE OF RTA</i>	<i>PROPORTION OF TOTAL</i>
Bilateral Agreements <sup>8</sup>	Accounts for more than half of all RTAs in force and for almost 60 percent of those under negotiation <sup>9</sup>
Plurilateral Agreements <sup>10</sup>	Accounts for 25 percent of the RTAs currently in force

According to the WTO Regional Trade Agreements Section of the Trade Policies Review Division, the most noteworthy development expected in the next five years is the emergence of a new category of agreement, namely RTAs where each party is a distinct RTA itself.<sup>11</sup> At present, there are no agreements of this kind in force, but several are currently under negotiation and this tendency looks set to intensify in the near future. This is a new trend which is a reflection of the growing consolidation of established regional trading relationships.

### **3. RTAs and the WTO**

In February 1996, the WTO General Council established the Committee on Regional Trade Agreements. Its two principal duties are to examine<sup>12</sup> individual regional agreements; and to consider the systemic implications of the agreements for the multilateral trading system and the relationship between them.

The November 2001 Declaration of the Fourth WTO Ministerial Conference held in Doha, Qatar provides the mandate for negotiations on a range of subjects including issues concerning regional trade agreements. The section of the Ministerial Declaration (WT/MIN(01)/DEC/1), adopted on 14 November 2001, entitled 'WTO Rules' (Paragraph 29) speaks to:

---

<sup>8</sup> Formed between two parties.

<sup>9</sup> This high number of bilateral agreements partly results from regional integration "hub-and-spoke strategies" requiring each "spoke" to conclude a bilateral RTA with the hub.

<sup>10</sup> One of the parties is an RTA itself.

<sup>11</sup> Examples include EC-MERCOSUR, SACU-SADC, to name a few.

<sup>12</sup> RTAs falling under Article XXIV are notified to the Council for Trade in Goods (CTG) which adopts the terms of reference and transfers the agreement to the CRTA for examination. In addition, the notification of agreements falling under the Enabling Clause is made to the Committee on Trade and Development (CTD). RTAs covering trade in services concluded by any WTO Members, whether developed or developing, are notified to the Council for Trade in Services (CTS).

*“We also agree to negotiations aimed at clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements. The negotiations shall take into account the developmental aspects of regional trade agreements”.*

The language of this part of the Ministerial Text acknowledges that WTO rules specify regional trade agreements have to meet certain conditions, however, interpretation of wording in this respect regarding rules has proved controversial. To this end, reconciling this issue has been a central element in the work of the Regional Trade Agreements Committee. This notwithstanding, it has been noted that since 1995 the Committee has been unable to complete its assessments of whether individual trade agreements conform with WTO provisions. This is now an important challenge, particularly when nearly all member governments are parties to regional agreements, are negotiating them, or are considering negotiating them. In the Doha Declaration, therefore, Members agreed to negotiate a solution, giving due regard to the role that these agreements can play in fostering development. The Declaration mandates negotiations aimed at “clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements. The negotiations shall take into account the developmental aspects of regional trade agreements.”

These negotiations fall into the general timetable established for virtually all negotiations under the Doha Declaration. The negotiations are to end by 1 January 2005. The 2003 Fifth Ministerial Conference in Mexico is to take stock of progress, provide any necessary political guidance, and take decisions as necessary.

#### **4. RTAs and Derogations to WTO Most-Favored Nation (non-discrimination) Treatment**<sup>13</sup>

WTO Members are permitted to enter into RTAs under specific conditions which are spelled out in three sets of rules:

1. [Paragraphs 4 to 10 of Article XXIV of GATT](#) (as clarified in the Understanding on the Interpretation of Article XXIV of the GATT 1994) provide for the formation and operation of customs unions and free-trade areas covering trade in goods<sup>14</sup>;

---

<sup>13</sup> Source: WTO Secretariat.

<sup>14</sup> i.e. the ‘triple condition’ that is set out in Article XXIV of GATT which regulates regional agreements. Specifically, regional agreements - that essentially serve to levy reduced/preferential tariffs on trade between partners - must not involve an increase in the ‘overall’ protection against third countries; must cover almost all trade (not excluding ‘sensitive’ products); must be put in

2. The so-called [Enabling Clause](#) (i.e., the 1979 Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries) refers to preferential trade arrangements in trade in goods between developing country Members; and
3. [Article V of GATS](#) governs the conclusion of RTAs in the area of trade in services, for both developed and developing countries.

## **5. Pros and Cons of RTAs**

Countries may decide to join an RTA for a variety of reasons; specifically, economic, political<sup>15</sup>, or a combination of the two. Economically, RTA partners can create faster, broader and deeper liberalization among their members than may be possible multilaterally. Consider the historic decision taken by CARICOM Heads of Government in 1989 to undertake significant and watershed revisions to the Treaty of Chaguaramas – which for decades has been at the core of the dispensation of what is CARICOM. Further to the Grand Anse Declaration, devised by CARICOM Heads of Government, in 1989, a work programme for the deepening of the integration process and the strengthening of the Caribbean Community into a single market and economy was set out in what came to be known as the CARICOM Single Market and Economy (CSM&E).<sup>16</sup>

As previously acknowledged, when a WTO Member enters into a RTA through which it grants more favorable conditions to its trade with other parties to that arrangement than to other WTO Members' trade, it departs from the guiding principle of non-discrimination defined in Article I of GATT, Article II of GATS, and elsewhere. Recognizing this, what specific features of RTAs compel such countries to engage in the dispensation? This question is best answered by examining the benefits but also the costs of RTAs to make a determination on deciding factors in RTA membership.

---

place within a 'reasonable' period of time, i.e. as per WTO Agreements - not exceed 10 years in being brought to fruition.

<sup>15</sup> Regarding political reasons, RTA membership is a means to consolidate domestic economic reforms across countries with historic ties to each other and provide political stability in the region through a spirit of cooperation and partnership.

<sup>16</sup> The intention of the CSM&E is to advance integration within CARICOM and move CARICOM as a trading bloc, entrenched in which is a customs union, toward the free movement of factors of production between the member countries (an 'economic space') without restriction. Such movement is premised on greater regional uniformity especially through harmonized policies/legal frameworks. The commitment made to the free movement of factors of production and harmonization of policies was encapsulated in the Montego Bay Declaration.

### ***Advantages of RTAs<sup>17</sup>***

1. The 'trade creation effect' resulting in lower import costs;
2. Regional arrangements promote freer trade *and* multilateralism;
3. The terms of trade for the regional group as a whole might improve; and,
4. A means of more effectively attracting foreign investment and the transfer of technology.

### ***Disadvantages of RTAs<sup>18</sup>***

1. Trade diversion may occur if the removal of tariff barriers causes higher-cost imports from partner countries to replace lower-cost imports from the rest of the world. Specifically, third parties may lose market share if the tariff reductions made by the RTA partners lead to greater intra-RTA sourcing. In addition, some economists - like Columbia University Professor Jagdish N. Bhagwati - argue that whilst regional agreements can "lock in" the process of domestic economic reforms, liberalization within RTAs is second-best to multilateral liberalization. They maintain it does not open the economy to full international competition, but only to competition from neighboring or associated countries;
2. Trade frictions between trading blocks of RTAs might complicate trade negotiations at the multilateral level;
3. Complicated rules of origin (especially in a free-trade area) may place an additional burden on national customs architecture. Although WTO rules demand that the overall level of protection should not increase, the creation of RTAs often implies administrative procedures, including rules of origin, which may both increase discrimination against non-members and create new complexities for members themselves;
4. If a country is party to a series of overlapping RTAs, technical problems may arise in the phasing of tariff reductions as well as in relation to other administrative complications;
5. A loss in tariff revenue; and,

---

<sup>17</sup> Source: WTO Secretariat.

<sup>18</sup> Source: WTO Secretariat.

6. The need to commit additional resources to negotiate and implement an RTA.

## **6. The Debate over RTAs and their Compatibility with the Multilateral Trading System**

One of the most frequently asked questions is whether the growth of regional groups helps or hinders the development of the WTO's multilateral trading system. Specifically, are RTAs building blocks for further global liberalization as opposed to stumbling blocks that deter such progress? This question remains at the core of regionalism as the debate on regionalism has been juxtaposed on concepts such as 'coherence' and 'compatibility'.

There are two basic schools of thought concerning the relationship between multilateral and regional trading arrangements. Those who advocate total reliance on the multilateral process express a number of concerns.<sup>19</sup> First, scholars like Bhagwati argue against RTAs based on what they term as their trade 'diversionary effects' by virtue of preferential treatment for member countries as compared to non-members. Any 'trade-creating' effect counter-argument is shut-down by such critics who argue that the impact of preferences work to reinforce the diversionary effect. Another major concern is that, as highlighted in earlier eras, regional trading arrangements (and economic blocs more broadly) may contribute to political and even military clashes among nations.

Noted proponents of RTAs, like Bergsten, on the other hand, argue that regional arrangements promote freer trade *and* multilateralism.<sup>20</sup> The logic here is that trade creation has generally exceeded trade diversion. Secondly, regional arrangements – Bergsten argues – serve to reinforce, better expedite and lock in domestic (political/economic) reforms, necessary in any liberalization exercise, that in effect enhance rather than reduce the prospects for global liberalization. Bergsten notes further that RTAs often pioneer new liberalization ideas/concepts

---

<sup>19</sup> See: Bhagwati, Jagdish, and Arvind Panagariya, "Preferential Trading Areas and Multilateralism - Strangers, Friends, or Foes?" In Jagdish Bhagwati and Arvind Panagariya, The Economics of Preferential Trade Agreements (Washington: American Enterprise Institute and AEI Press, 1996). Also see: J. Bhagwati, "Preferential Trade Agreements: The Wrong Road." *Law and Policy in International Business*, 27, no. 4 (Summer), 1996: 865-71.

<sup>20</sup> F.C. Bergsten, "Globalizing Free Trade" , *Foreign Affairs*, 75, no. 3 (May/June), 1996: 105-20. Also see: F.C. Bergsten, "Competitive Liberalization and Global Free Trade." In Il SaKong, Major Issues for the Global Trade and Financial System, Seoul: The Seoul Global Trade Forum. (Reprinted as C. Fred Bergsten, "Competitive Liberalization and Global Free Trade: A Vision for the Early 21st Century." Asia Pacific Working Paper Series No. 96-15, Washington: Institute for International Economics, 1996).

that can subsequently be generalized in the multilateral system. Examples include the services chapters of the Canada-United States and Australia-New Zealand free trade agreements, the competition policy chapter of the latter (which enabled the two countries to dispense with their antidumping laws) and the investment chapter of the NAFTA. Finally scholars like Schott<sup>21</sup> maintain that “regionalism and multilateralism have worked in lockstep since the founding of the GATT more than forty years ago” and notes that “regionalism has advanced in the context of continuous multilateral trade liberalization, which effectively narrowed the gap between MFN tariffs and the preferential rates accorded regional partners.”

## **7. Concluding Remarks**

This debate notwithstanding, it is widely acknowledged, though, that WTO rules on RTAs seek to ensure that the rights of third parties are not compromised. Specifically, because of Article XXIV of GATT regional trading arrangements can be set up provided the arrangements, in particular, facilitate trade flow more freely among countries in the group without barriers being raised on trade (or diversion of trade) with the outside world.<sup>22</sup> In other words, and as articulated by the WTO, “regional integration should complement the multilateral trading system and not threaten it”. By its own admission, however, as per the conclusion of an important 1995 study - the WTO Secretariat maintains “... to a much greater extent than is often acknowledged, regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open trade.” Regionalism can also act as a catalyst for multilateral cooperation by creating synergies as well as a critical mass for a regional block. In point of fact, national involvement and commitment to critical reform areas such as trade liberalisation is crucial for creating a global free trade regime.

While the debate is not easily reconcilable it should be noted that important in all this is whether the pursuit of an RTA exercise is done in a manner that enables constructive synergism between multilateralism and regionalism or if one dispensation is pursued at the expense of the other. One would hope that it is the former - constructive synergism - that is the preferred choice, as the 1990s was a prolific decade for regional trade initiatives and early data from the last two years suggest that this trend looks set to continue.

---

<sup>21</sup> J, Schott, “Regionalism and Multilateralism” , Paper presented at the IMF Institute: Seminar on Trade Policy Issues, March, 1995, Washington.

<sup>22</sup> In addition, RTAs must not create diversion of trade for non-members.

**All correspondence should be directed to:**



*OECS/CRNM Trade Policy Facilitator*

**ECONOMIC AFFAIRS DIVISION**

*[nbardouille@oecs.org](mailto:nbardouille@oecs.org)*

*(758) 452-2537/8, ext. 2130*